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Viewing cable 08MANAGUA1492, NICARAGUA: IMF REP PREDICTS GLOOMY 2009

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Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#08MANAGUA1492**.

Reference ID	Created	Released	Classification	Origin
08MANAGUA1492	2008-12-15 17:12	2011-08-30 01:44	CONFIDENTIAL	Embassy Managua

Appears in these articles:

<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758456.aspx>
<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758467.aspx>
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<http://www.nacion.com/2011-05-23/Mundo/Relacionados/Mundo2758764.aspx>
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<http://www.nacion.com/2011-05-16/Mundo/NotasSecundarias/Mundo2757239.aspx>
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<http://www.confidencial.com.ni/articulo/3991/dra-yadira-centeno-desmiente-cable-diplomatico-eeuu>
<http://www.confidencial.com.ni/articulo/3968/pellas-pronostico-a-eeuu-victoria-de-ortega-en-2006>
<http://www.confidencial.com.ni/articulo/3967/barreto-era-ldquo-fuente-confiable-rdquo-para-eeuu>

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R 151712Z DEC 08
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 3525
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
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SUBJECT: NICARAGUA: IMF REP PREDICTS GLOOMY 2009

Classified By: Ambassador Robert J. Callahan for reasons 1.4 b & d.

¶1. (C) Summary. The IMF's Resident Representative in Nicaragua, Humberto Arbulu, told the Ambassador on December 10 that the GON faces a very difficult 2009, and that the Fund had recently downgraded the country's economic growth forecast from 4% to 2%. The December 4-5 IMF review of Nicaraguan performance under the Fund's three-year Poverty Reduction and Growth Facility (PRGF) was unsatisfactory, and the GON must act to approve a fully-financed 2009 budget if it is to receive the third PRGF tranche of \$25 million. In February 2009 the GON must service \$150 million in bond debt, a relatively large sum given Nicaragua's limited reserves. Failure to meet this obligation could result in a collapse of the financial system, led by runs on banks and capital flight. The GON's economic team clearly understands Nicaragua's precarious situation, but it has been unable to exert any significant influence on President Ortega, who must take the political steps necessary to assuage an outraged international donor community as the result of fraudulent municipal elections on November 9. End Summary.

¶2. (C) IMF Resident Representative in Nicaragua Humberto Arbulu met with the Ambassador on December 10 to offer his views on the results of the December 4-5 review of GON progress under the Fund's three-year, \$110 million Poverty Reduction and Growth Facility (PRGF) agreement. Arbulu told the Ambassador the IMF had downgraded its 2009 Nicaraguan economic growth forecast from 4% to 2% based on three factors: decreased U.S. demand for Nicaraguan exports as a result of the recession, a decrease in demand in Central American markets, and lower worldwide commodity prices for coffee and other important Nicaraguan agricultural exports. Decreased remittances from Nicaraguans working abroad in the United States, Costa Rica and Spain will also contribute to an economic slowdown in 2009. Remittances account for 12-15% of Nicaraguan GDP (about \$800 million); of that amount, according to Arbulu, the U.S. share is almost half. The GON will stagger through the end of 2008 able to meet its national budgetary requirements, but 2009 will be challenging, owing in no small measure to the likely decline of foreign budget support from European donors as a consequence of the FSLN's anti-democratic actions.

¶3. (C) Arbulu told the Ambassador that in February 2009 the GON must service \$150 million in sovereign bonds, issued as compensation for properties seized by the Sandinistas during their first period in power (1979-1990), and flagged this payment as a flashpoint. If the GON fails to honor its debt obligations, it could face capital flight, runs on banks, and a collapse of the financial system. International reserves of \$1.1 billion would allow the GON to fully pay the import

bill for 3 months, after which the exchange rate would collapse. According to Arbulu, the GON's primary economic players--Central Bank President Antenor Rosales and Senior Advisor Bayardo Arce--clearly understand the ramifications of a default. Rosales privately told Arbulu that the GON could forgo paying civil service salaries as a stop gap measure.

¶4. (C) A self-described optimist, Arbulu confessed that he now only gives the three-year PRGF a 50/50 chance of continuing in its present form. At this juncture the IMF is not prepared to disburse its third tranche of approximately \$22-25 million, mainly because the GON lacks an approved, fully-funded 2009 budget as a result of European budget support donors threatening to end assistance. Arbulu emphasized that under no circumstances would the IMF Board of Directors approve disbursements if the GON does not legislate its own budget. He added that the IMF will not conduct another review of Nicaragua until these requirements are met. Until recently, Arbulu added, the IMF has played softball with the FSLN economic team, but now that global financial circumstances have changed and Costa Rica, El Salvador and the Dominican Republic are requesting IMF assistance, there will be increased scrutiny of Nicaraguan performance under the PRGF's measurements.

¶5. (C) On the political side, Arbulu told the Ambassador that while Arce and Rosales are competent in crafting sound national economic policies, their influence on President Ortega and First Lady Rosario Murillo is limited. Arbulu confided to the Ambassador that Rosales had told him recently that Ortega had paid a very high political price for the

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November 9 municipal elections and was at the point of no return. Even with Nicaragua's isolation in the international donor community, and a costly potential cutoff of 2008-2009 EU budget assistance, Ortega seems impervious to reason.

COMMENT

¶6. (C) Arbulu's sobering 2009 prediction for the Nicaraguan economy would sound alarm bells for most rational economists or policymakers. The fact that Arbulu's office is physically housed in the Nicaraguan Central Bank (which affords him ready access to Rosales' office) along with the fact that he has represented the IMF here for over four years, lends increased credibility to his analysis.
CALLAHAN